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The Changed Geopolitical Map: Implications for Business Policy in a Sustainable Finance Perspective

Pervez N. Ghauri, Lars Oxelheim and Trond Randøy

Research Institute of Industrial Economics
P.O. Box 55665
SE-102 15 Stockholm, Sweden
info@ifn.se
www.ifn.se

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Pervez N Ghauri, Birmingham Business School, University of Birmingham

Lars Oxelheim, Research Institute of Industrial Economics (IFN) and the School of Business and Law, University of Agder (UiA)

Trond Randøy, Copenhagen Business School (CBS)

Abstract

The paper acknowledges the changed geopolitical map and the new adjacent political mindset and examines the current state of the relationship between MNEs and governments/central banks. The focus is on the implications of these changes for business policy in a sustainable finance perspective. Our analysis reveals that the increased tensions in the post-financial crisis of 2008/2009, the ultra-low interest rates during the Pandemic, and development in geopolitics post-Ukraine, contribute to reducing the assumptions for a well-functioning global value chain. These tensions all need to be addressed by careful adaptation of company strategies and government policies. Five corporate strategies for the reorganization are discussed. Moreover, on the positive side the reorganization of the global value chain provides an opportunity to meet the United Nations' Sustainable Development Goals (SDGs) (United Nations, 2015). The reorganization calls for sustainable financial decisions that internalize environmental, social, and governance (ESG) considerations. The paper addresses this call and explores the implications for the practice of sustainable finance in a MNE that considers a reorganization of its global logistic chain because of increased frictions in crossing national borders.

JEL: D25, E22, E24, E58, E62, F21, F23, L22

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Introduction

The relationship between multinational enterprises (MNEs) and governments has evolved over time, from a period of conflict after World War II to a more cooperative relationship in the 1970s and 1980s (Dunning, 1993). In the 1990s, many host governments sought foreign direct investments (FDIs) by MNEs and subsidized inward investments through excessive locational competition (Oxelheim & Ghauri, 2004). However, recently, this relationship has changed again, and outward-oriented policies have been replaced by protectionist ones (Ghauri, Strange & Cooke, 2021; Oxelheim & Randøy, 2021). Home country governments, particularly in the US (i.e., Inflation Reduction Act) and in Europe (i.e., Net-Zero Industry Act as part of the Green Deal Industrial Plan), are concerned about technology transfers and value chain vulnerabilities from both inward and outward investments.

In early 2023, during the post-pandemic era, the stock market rally sent signals to consumers and investors that the outlook of the global economy was recovering despite the pandemic's impact. The common explanation was that the stock market is forward-looking (Goldin & Mariathasan, 2014) and takes into account the bright future expected to come after the trauma of the ongoing pandemic subsides. However, there are signs of increasingly alarming protectionist policies negatively influencing cross-border integration (Ghauri, et al., 2021). For example, cross-border trade in medical devices and vaccines is being significantly hampered as protectionism takes hold (OECD, 2021), and specific restrictions are being reintroduced that constrain international trade and investment (Witt, 2019). Another example of increased promotion of economic nationalism is central banks' extensive promotion of new monetary policies involving quantitative easing and record-low interest rates. Quantitative easing typically targets domestic investment classes such as bonds and commercial papers, thus lowering the cost of capital of domestic firms vis-à-vis that of their foreign competitors. We argue that these factors represent threats to a set-back of the globalization of product and financial markets, and consequently add to the risk exposure of internationally oriented companies. This exposure is particularly problematic for companies based in small open economies such as the Nordic countries, where they heavily rely on access to foreign product markets and international investment opportunities.

The paper acknowledges the changed geopolitical map and the new adjacent political mind-set and examines the current state of the relationship between MNEs and governments/central banks and its implications for business policy in a sustainable finance perspective. Our analysis reveals that the increased tensions in the post-financial crisis of 2008/2009, the ultra-low interest rates during the Pandemic, and development in geopolitics post-Ukraine, all need to be addressed by careful adaptation of company strategies and government policies. The changing relationship between multinationals and governments/central banks and how the two parties can work together towards the achievement of United Nations' Sustainable Development Goals (SDGs) (United Nations, 2015) has to be considered. These grand challenges call for sustainable financial decisions that internalize environmental, social, and governance (ESG) considerations. The paper attempts to address this call and explore the implications for the practice of sustainable finance in a MNE that consider a reorganization of its global logistic chain as a result of increased frictions in crossing national borders.

The set-back for a world without border friction

In terms of economic and financial integration, the world seemed very bright in the period of 1870–1914. In that period it was possible to order goods from all over the world, travel without a passport and invest in companies on foreign continents without considerable restrictions. The lack of friction in passing a border was very close to the image of perfect geographical integration. The two world wars during the first half of the 20th century then resulted in the emergence of heavy border barriers and the integration being rolled back. In the 1970s, the integration changed direction again (Oxelheim, 2005), which meant that by the early 2000s MNEs and investors could once again benefit from an integrated world where goods, services, capital, and people could travel relatively freely across national borders without uncertainty, costs or wasting of time. In this world, the basic preconditions were found for the global value chain, global factory, global production chain or global logistics chain as a preferred business model.

However, the financial crises of 2008 paved the way for a roll-back of the globalization and meant a set-back of the world without border friction. The UK Referendum on Brexit in 2016 and Donald Trump's election to the US Presidency in 2016, saw an aggressive agenda of

"America First" policy. As a result, more and more countries (e.g., Brazil, UK and EU) and even some economists started to subscribe to the notion that large scale inflow of manufactured goods in the West from low wage emerging markets, especially China, will be changing the dynamics of international trade (Krugman, 2019). At the same time there was an increasing push from the United Nations and other international organizations to pursue an interdependent, fair, and justified policy for the world as a whole. The big business policy-question that emerged for MNEs is then how to balance these two opposing macro forces: nationalism and system-based globalism.

The return of new-mercantilism

At the beginning of the 2020s, there is a visible outcome of a structural economic transformation that has been brewing for more than a decade and that is linked to the ongoing technological shift. We analyze below how political pressures related to this structural transformation pave the way for the return of mercantilism in a new form: new mercantilism or new protectionism. This time it is not a zero-sum game about gold and silver - as in the original vintage 350 years ago – but it is a race for high-tech jobs that drives politicians to be more nationalistic. We argue that this race for jobs in a period of technology shift, coupled with experimental efforts by central banks, will lead to the need for a reorganization of the MNEs' global logistics chain. The Covid-19 pandemic has just acted as a catalyst to this very transformation.

The technology shift as the trigger

Financial crises and technological shifts tend to go hand in hand. The economic logics for this is simple: a pending technology shift makes firms postpone their investments in hesitation about which new technology will be the winning one. At the individual level, a similar decision is visible when buying a new car. Which technology will apply tomorrow? Petrol, diesel, biogas, electrical, etc.? The uncertainty encourages the individual to postpone the purchase in order to avoid the risk of new regulations (some cities have already put a ban on diesel vehicles), or a better technology arriving (e.g., the lithium battery used in all electrical cars being replaced with a much more efficient, solid-state battery). In 2023, digitalization, artificial intelligence, and robotization are key elements in such uncertain technology development. In addition, we have the demand for technology alleviating climate change. Thus, these technological shifts create uncertainties among consumers, investors and policy makers making them postpone their investments.

The actions of central banks to encourage investments

Since the start of the financial crisis of 2008, major central banks around the world have been trying to solve the implications of the technology transformation by “helping” companies with enhanced access to liquidity and lower interest rates. The companies' wait-and-see attitude towards real investments has led to the “cheap money” instead being spent on firms repurchasing their own shares and excessive borrowing. At the beginning of the 2020s, there is record high indebtedness both in companies and among countries globally. American companies have indebtedness (measured against GDP) which is at an all-time high. In the early 1990s, almost 100 S&P 500 companies had a AAA credit rating compared to just two such companies by the end of the 2010s (Altman, 2018).

We argue that the pretended solutions to the financial crisis of 2008 in terms of a record-high global indebtedness will mean strong repercussions for the global logistics chain. When FED governor Alan Volcker conducted his monetary policy experiment in 1978 by changing the monetary policy target from the interest rate to the money supply, the result was that interest rates in the US, for prime borrowers, rose by almost 10 percentage points (!) without a significant increase in inflation (Oxelheim, 2018). In other words, the increase went out of the hands of the FED at that time and, if this is repeated, albeit by only five percentage points, the world may witness a new financial meltdown implying further challenges for the MNEs.

The central banks' attempts to alleviate the financial crisis and the aggravating effects of the pandemic, led, in 2020, them to increase the money supply by a record rate. It increased for the twelve largest countries in the world (US, China, eurozone, Japan and eight other developed economies) at an annual rate of 19 percent (USD 14,000 billion), which was the largest registered annual increase ever noted (Burgess, 2020). For the US, the corresponding figure was 25 percent, and more dollars were created than ever before. Since 2008, the world economy has up to 2020 grown by only 31 percent, while the amount of money has increased by 125 percent. When GDP does not grow to an extent that corresponds to the money supply growth, a foundation for an explosive "cocktail" with higher prices and higher interest rates has been mixed. Sooner or later will the central banks need to restore their balance sheets to pre-2008 levels which may create further financial uncertainty. The FED's efforts to restore the balance sheet in 2017 (the so-called "tapering tantrum") gave a clear idea of what may be expected from such an exercise. The fixed-income market shook worldwide.

Fiscal policy support and the political risk

The Covid-related rescue packages implemented in 2020 and 2021, of 750 billion Euros in the EU (July 2020) and USD 1,900 billion in the US (March 2021), will—if they do not dramatically stimulate GDP—light the inflation fire and likely produce a scenario with significantly higher interest rates. In the US, "helicopter money" (Friedman, 1969) was put into use when USD 1,400 per person was distributed as part of a rescue package to US residents below a certain income ceiling. In Europe, "helicopter-like money" had also been tried a couple of years prior to that (Oxelheim, 2016). We argue that attempts to resolve the financial crisis of 2008—and the extension of such attempts to 2020–22 aimed at alleviating the effects of the pandemic—represent a gigantic experiment that will, in a longer run perspective, lead to lower levels of cross-border trade and investment, i.e. to reduced globalization of firms and markets.

In this chapter, however, we see the biggest immediate threat to the pre-Covid global business model in a massive increase of state aid to firms. In 2022/23 we see the Inflation Reduction Act introduced by the US and with the Net-Zero Industry Act as a counteracting measure by the EU paving the way for a dangerous competition between nations. The EU affirmed in its 2014 statutes the use of state aid to combat the financial crisis (EU, 2014).

The new pattern of demand and supply of jobs as a driver of protectionism.

Efforts to alleviate and resolve the financial and economic crisis with monetary policy will, in the long run, lead to higher interest rates, inflation and taxes, which individually or in combination will result in a lower demand for goods and services, and thus fewer jobs (Oxelheim, 2012a). A negative impact on the labor market would furthermore be unfortunate at a time when the number of jobs has temporarily decreased as a result of digitalization, robotics, artificial intelligence and competition from the sharing economy. Studies estimate that as many as 50% of industrial jobs in the US will disappear in the coming decade (Frey & Osborne, 2017). The pandemic has acted as a catalyst and accelerated the transition process.

Many of those who have been temporarily laid off will, as a result of the technology shift, turn out to be redundant and find themselves permanently unemployed. Preliminary results indicate that this may include about every third job (Rockeman & Ward, 2020). However, the release of artificial intelligence software GPT4 at the beginning of 2023 has made this estimate look like an underestimation. The technology shift will create many new jobs, but it will take some time before there is a sufficient number to reduce unemployment to the levels that applied before the pandemic. Long-term employment will be a problem in the transition phase. We argue that we will see a post-pandemic world plagued by unemployment in the next decade, where the focus of every successful politician will be on creating attractive jobs.

We highlight three ways politicians can “create” jobs with varying degrees of transparency (see Oxelheim & Ghauri 2004, 2008). The first way is to get foreign companies to produce in the respective politician’s own country, and to get home companies to stay home by convincing them that their country is the best production location. Succeeding with such a strategy boils down to the country achieving the best productivity by means of high-quality education, a superior innovation climate and the elimination of various bureaucratic obstacles. This solution takes time, and requires a high degree of transparency and communication skills. However, this is likely more time than a politician can typically afford with the next election in general less than four years ahead.

The next transparent alternative is to reduce corporate tax and, in this way, attract foreign companies and jobs. Many countries have tried or are considering trying to use this path since the financial crisis in 2008. There is a race-to-the-bottom for corporate tax in the early 2020s. Maybe halted by an international agreement to have a floor of 15% for that tax.[1] Regardless of

[1] In October 2021, a global agreement was reached among 136 countries on a floor for corporate tax. The agreement sets a minimum tax rate of 15% on multinational corporations' profits to help prevent companies from shifting profits to low-tax countries.

if this effort works or not, previous studies show that corporate tax has little significance for the location decision compared to the personal income tax and the quality of the school system that will apply to the immigrating CEO and his/her children (Braunerhjelm, 2004).

Given the limited years of tenure available to the politician, the third and only viable way to attract companies from abroad, and to have home companies stay home, is to offer them tailor-made, firm-specific packages of economic stimuli, equivalent to anabolic steroids in the world of sport. But, such packages are in the gray zone of trade agreements or other economic agreements (such as EU’s common market), and they may be subject to all kinds of criticism related to the breaking of competition laws. Therefore, most deals are non-transparent and manage to “fly under the radar” of regulators and the public. However, due to the effects of the financial crisis of 2008 and the pandemic, this "stealing of jobs from the neighboring country" has become commonly accepted in the early 2020s. More relaxed regulatory systems and the use of state aid works as an economic lubricant. For example, the presidents of the US—both outgoing and incoming—have, as part of the race for jobs, underpinned nationalism to attract companies. The same can be observed in China, where the motivation is to please the masses in order to reduce the threat of mass protests.

The problem with this approach is that, in a non-transparent way, it challenges cohesion between the countries of the world by resorting to the violation of "fair competition". It also creates a new form of political risk at the corporate level which, in research as well as in practice, is overlooked (Oxelheim & Ghauri, 2008). Unlike the traditional political risk, which is about the volatility of the rules of the game set by politicians, and where the seriousness is determined by corporate exposure, the new political risk also gives different risk scenarios for different companies, and does so in a non-transparent way (Forssbaeck & Oxelheim, 2015). The new risk emerges since there is no transparency in what beneficial terms have been given to competitors.

Governments, central banks and corporations interact in the cross-border competition for jobs

With support from their central bank, politicians can boost the attractiveness of the economy and attract investments and jobs from abroad. In order not to challenge other countries' governments and international organizations such as the IMF and the World Trade Organization (WTO), the fight in the early 2020s is being waged in newly packaged formats. Competitive devaluations have always had a negative connotation. Now they come in the form

of a formidable *currency war*, with the excuse that they are means to "fight deflation". With this labeling, the central bank can ensure that the value of its own currency is depreciated as part of creating higher inflation. The fight is pursued with the creation of new money, low policy rates and numerous currency interventions. In this way, the central bank provides help to its own export industry, and helps to protect companies that can be called domestic but are in fact exposed to foreign competition at home. The increase in import prices is then reflected in lower demand for imported goods and services, which will be replaced by domestically produced goods/services. The fight against deflation thus helps to create the coveted jobs in the domestic market. The central bank's various activities aimed at making imports more expensive are thus nothing less than part of new mercantilism or new protectionism.

A currency war will become ineffective if all countries are involved – it is a zero-sum game. This insight led politicians to take the next step—the *tariff war*. The war with tariffs and countermeasures took over at the end of the 2010s. The US, China and the EU built walls around their markets with the help of tariffs. The defense of these became increasingly convoluted, as when President Donald Trump defended the introduction of increased steel tariffs as a matter of military defense. However, this measure was mostly motivated by the need to show political support for a particular interest group. In other words, to win votes from the so-called “rust belt”. The awareness of the harmfulness of tariffs to the citizens of the countries in which they are introduced has led to this means of competition being strongly questioned.

A few years ago, we saw the beginning of the *Internet war* (Oxelheim, 2019). This is now fully materialized where countries like China block major foreign internet-based firms (e.g. Facebook), and likewise the US has discouraged the use of services like the Chinese Tik-Tok. At the beginning of the 2020s, countries such as China, Russia, India and Iran took crude measures to control the network. Trump also started such a war by abolishing what his predecessors had created in terms of Net neutrality. With an increasing share of cross-border trade happening in the form of online trade, it is easy for those who control the network to also intervene in a non-transparent way to prevent unwanted cross-border transactions. As an example, a Russian citizen who wishes to order goods from the US may find that their Internet

connection does not work in this environment and, after repeated attempts, will give up and turn to a Russian company. Production and jobs thus stay in Russia. The internet war will aggravate with artificial intelligence and all alternatives provided by e.g. GPT4.
The use of state aid has also been packaged in other ways to hide its gray character, such as to promote a new production technology. This has been seen as an acceptable excuse by both the WTO and the EU. When President Barack Obama saved General Motors (GM) with state aid for job reasons, the excuse was that GM would focus on producing "green" cars when in fact, as shown in Oxelheim and Wihlborg (2012), the company was in such poor condition that it should have exited the market in line with Chapter 7 of the U.S. Bankruptcy Law. The Swedish Minister Maud Olofsson used a similar type of excuse to sign a guarantee for the car manufacturer Saab in 2005.

The competition for investments and jobs at different layers

The national competition for attractive jobs is being waged in a hierarchical chain, where national politicians attract primarily with the help of their "invest in agencies" policies. The competition can then continue at the regional level down to a competition between cities to host the investment. The fight can also be waged through cooperation between the levels, such as when Sweden offered SEK 140 million as a carrot and thereby managed to successfully convince Facebook to place one of its servers in the north of the country.

The competition for investment and jobs can basically be triggered in three ways. One is that bids are submitted on the initiative of national politicians. Assume there is an investor who, after an OLI analysis[2] (Dunning, 1980), considers investing in one of the countries A, B or C. With the help of a tailor-made package from politicians in country A, the investor is convinced to choose to invest in that very country. The choice of country is then made on the basis of its attractiveness as measured by the sum of the initial OLI conditions (the extent of the location's advantages in relation to the specific firm) in the country and the support coming from the tailor-made package of tax relief, dedicated infrastructure, investment support, training, etc.

(Oxelheim, Randøy & Stonehill, 2001). China's targeted transition set out in its 12th five-year plan (further elaborated in the 13th) from being the world's factory floor to becoming the world's R&D center has motivated China to provide investment "packages" to attract investors with the desired competencies.[3]

The next alternative may come at the initiative of the company, in the form of the announcement of an "auction". If the company has found that it wants to go to a certain region, and countries A, B and C are well suited for the investment, it will ask the governments in each country to submit bids regarding the kinds of incentives they are willing to offer to obtain the investment and the jobs. The most attractive bid will then succeed. The big question - in addition to the ethical one - is whether and how a country should respond to an invitation to an auction of this kind. There is no unambiguous answer. It must be sought through a game theory approach.

The third option is that a company considering an investment announces a "beauty contest" between subsidiaries in different countries. This can be exemplified by GM, which in 2005

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[2] The OLI analysis applies three sets of factors that need to be satisfied for firms to make an FDI: (1) the possession of firm-specific unique resources, (2) advantages related to locating the activity abroad, and (3) advantages of owning the foreign activity over alternative contractual arrangements (local agent, exports, local licensees).

[3] In the 14th five year plan, China is pledging innovations combining political ecology and digital economy to handle climate change in pursuing an upgraded commitment to the Paris Agreement.

announced a competition between Saab in Trollhättan in Sweden and Opel in Rüsselsheim in Germany, regarding which company was the most suitable to produce GM’s third-generation medium-sized cars. This turned into a competition involving Sweden's Prime Minister Göran Persson and German Chancellor Gerhard Schröder (Oxelheim & Ghauri, 2008). Here, all sorts of incentives were offered to convince GM where to locate production. In Sweden, political bodies and authorities at all levels were involved. The government thus offered new infrastructure to facilitate transport to and from Trollhättan. The union offered to work longer for the same payment, and even competitor Volvo showed its support in terms of enhancing the national competitiveness of the industry, in accordance with Porter's (1990) diamond.

In line with what has been described by Oxelheim and Ghauri (2008), the fight for jobs can take place via benign and malign means, respectively. The former category includes education, reduction of bureaucratic obstacles, and the marketing of special skills such as language skills.

The latter category includes the provision of financial incentives of a targeted nature, social and environmental dumping, and the incitement of nationalism. History offers countless examples and, at the beginning of the 2020s, clear nationalist slogans are being heard from politicians around the world. The fact that President Joe Biden, at an early stage after being installed, took over the slogans "America first" and “Buy American” from his predecessor clearly indicates that the US is paving the way for a neo-mercantilist era.

The use of financial means in the competition for jobs

The financial incentives aimed at lowering the cost of capital of a prospective investing firm can be sorted into five different categories, all of which can at best be said to be in a gray zone. These attempts to steal jobs from neighboring countries with the help of state aid have, in the past, led to conflicts with governments of other countries. However, as previously mentioned, the pandemic seems to have led to a general acceptance of this use of tax money.

The first category of financial incentives consists of subsidies and direct grants to the investor. This may involve giving investment support or perhaps masking this by letting the investor buy a production facility at a discount. The latter alternative is more difficult to criticize as the seller—in the form of the political establishment in the host country—can escape by simply expressing regret that they have made a bad deal.

The second option is to offer tax exemptions. This can be done in the form of discounts of various sorts. The offer can take the form of a tax exemption for a specified number of years or, for example, the form of a lower tax rate. Ireland's decades of success in attracting FDI rested precisely on such a tax incentive that - when it emerged that it was being given to the big tech companies in the late 2010s - started an intense tax debate that created conflict between the EU and the US.

The third category of incentives consists of loans at non-market interest rates. For example, the investor may be offered a long-term loan with such a low fixed interest rate that it appears to be a gift that cannot be resisted.

As a fourth category, the political establishment in the host country can offer to inject share capital on non-market terms. The government can, for example, invest but accept a waived dividend as well as no voting rights. A joint venture with minority ownership for the recipient country would make it particularly difficult for the magnitude of such an incentive to be traced and criticized.

The fifth category is where the host country issues a warranty. Such a warranty may mean that, if the investing company has not succeeded in making profit after, for example, five years, it will be compensated for the loss.

The fight for attractive jobs

Cross-border competition for jobs will have losers, and politicians in the job-losing country will be tempted to act on the unemployment ratio. For example, they might reduce job demand by closing borders for categories of people who do not match existing jobs and who will impair unemployment statistics; thus improving the chances of these politicians being re-elected. In this vein, voices were raised for a renegotiation of the Schengen agreement at an early stage of the 2008 financial crisis. The Covid-19 pandemic has made it clear to politicians how easy it is to close borders. Hence, the same could be true even as part of the fight for jobs. We do not know exactly where the reshaping of the world economy after the financial crisis of 2008 will end (Oxelheim, 2012b), but, if the pattern that has crystallized in the early 2020s takes hold, and if globalization is rolled back completely, we will be in an entirely new situation. By the end of World War II, there were 74 nations. Now there are over 200. This means that managers and boards will face situations where they have to consider more than 200 governments, currencies, central banks, customs authorities and financial inspectors in their decision-making. All in all, this will lead to sharply increased search and transaction costs, as well as increased uncertainty, which in turn will lead to a weakening of the global logistics chain. It is easy to imagine the problems the new economic scenario could create for a company such as Scania Trucks, whose trucks can contain thousands of components from numerous countries. The new scenario calls for a change of business model that considers the set of problems associated with border friction and a globalization that has been rolled back.

What, then, could prevent globalization from being rolled back?

In the tough times ahead for free trade and multilateralism in the current geopolitical climate, someone must take the lead to prevent closed borders and protectionism from gaining a foothold. The only potential supernational counterforce at the present time would be the strengthening of the mandate of the WTO. However, the probability that a solid action to rescue the WTO will take place is small given the organization's two heaviest members—the US and China—are involved in a trade war with each other. President Trump let the US block the WTO. The key issue was and still is the dispute settlement mechanism. Since his accession, President Joe Biden has not expressed any direct support for the WTO but appears to be continuing with his predecessor’s "America first"/"Buy American" policy. President Xi Jinping's willingness to live up to WTO rules also appears to be weak. A remarkable observation is that China still labels itself as a developing economy in the context of WTO membership (belonging to a group of about 2/3 out of 164 member countries) and by that being given a number of advantages. That the EU, with its significant internal problems, will shoulder the leading role seems less likely (Bakardjieva, Michalski & Oxelheim, 2021). It is itself facing a rollback in relation to Brexit. Hence, what can be expected is a re-organization of the global logistic chain of most firms around the globe.

Challenges to the global factory calls for new business investment strategies

Five business strategies can be identified in a world where national borders have regained importance.

(1) Laissez faire
(2) Reshoring,
(3) Diversification,
(4) Regionalization, and
(5) Replication

The *laissez faire strategy* assumes that the company continues to rely on its current global logistic chain in a conviction that the geopolitical turbulence of the beginning of the 2020s is just temporary. The other four strategies are active and can be extracted from the four development paths for the global value or logistic chains of the future as discussed by the World Investment Report (UNCTAD, 2020). In their classification, the importance of the ongoing digitalization, the increased environmental requirements and the existing geopolitical fluctuations are taken into account.

In the *reshoring strategy*, it is assumed that the value chain could be shortened, with more concentrated value added closer to home. The element of offshoring and outsourcing are assumed to be reduced. The technology shift would be the driving force behind this model. This pattern, it is assumed, will be further reinforced by stronger demands for self-sufficiency as a result of the pandemic of 2020, and with an assumed trend towards more domestic production in strategic industries (e.g. the EU concept of Strategic Autonomy, 2023). The industries that can mainly be classified as belonging to this category are the most global-value-chain-intensive, technology-dependent companies.

The *diversification strategy* draws on the strengths of global value chains. Digitalization is assumed to provide opportunities for companies to diversify abroad and to create completely new chains with subcontractors. The strategy would build on platform-based digital management of the value chain, and it should be seen as particularly relevant for service companies and similar industries with a strong dependence on global value chains.

The *regionalization strategy* suggests that the global value chain should become more regional and concentrated in regions or groups of countries. Two sub-strategies are assumed to be behind this development. The first is for multinational companies to pull back from certain parts of the world and concentrate their value chains in a specific region. The second sub-strategy would be for the firm to divide its international production so that each region has its own value chain. Hence, multinational companies will according to this strategy choose to locate regional value chains close to markets in different parts of the world. Geopolitical changes, environmental and sustainability requirements, and technology are assumed to be the driving forces behind this development.

The *replication strategy*, as the fifth and final strategy, refers to companies that have their production capacity located geographically close to their consumer markets. For this development, 3D technology and other additive manufacturing are seen as likely to be a catalyst. Manufacturing platforms in different parts of the world would replicate the desired production. This strategy would imply shorter value chains that are less fragmented and is supported by multinational firms' application of global innovation strategies (Cuervo-Cazurra et al., 2020). By allowing the multinational company to increase its control over the early stages of the value chains—such as R&D and design, and then to have the production stages outsourced close to their consumer markets—it is assumed that this strategy will create more trade in services, in particular related to intangible assets and data.

The different strategies are relevant for different industries. For transport industries, reshoring and regionalization may be the most relevant. For the knowledge-intensive service sectors, reshoring would not be the first option. Here, the greater opportunity would rather lie in more geographical diversification. The pharmaceutical industry may see increased opportunities to replicate products and, for example, find opportunities to produce exactly the same vaccine at different production facilities around the world. Significant for that strategy is also the possibility that telecommunications technology may radically reduce the costs of face-to-face meetings (Baldwin, 2018). Also important for the development of value chains is, according to

Baldwin, the concept of virtual immigration: a situation in which, with the help of technology (Telerobotics), it would be possible for workers in one country to complete tasks in a factory in another country via locally connected robots. Lund, Manyika, Woetzel, Bughin, Krishnan, Seong & Muir (2019) pinpoint advanced economies with a well-educated workforce, developed service operations, strong eco- and innovation systems for the backing of entrepreneurs, and large prosperous consumer markets as the winners in the development of the next generation of global value and logistic chains.

How then to strengthen the resilience of the value chain? One recipie to increase resilience focuses on key components or raw materials - like semiconductors and lithium - and deem them most important. By emphasizing critical technologies and geographic shortages governments and companies may anticipate and overcome supply-chain vulnerabilities. Another may be to focus on high-priority markets instead of focusing on cutting-edge semiconductor deals with the shortage of “legacy chips” used in mature products. This might be addressed more quickly by retooling existing factories. Another recipe may be to focus on

international production partnerships to handle intricate cross-border trade and investments. For example, the COVID-19 vaccine developed by BioNTech and Pfizer involves 280 components from 86 suppliers sourced from 19 countries around the world. AstraZeneca has formed manufacturing partnership with 16 contract manufacturers in 25 sites in 15 countries, and transferred technology to the Serum Institute of India, the largest vaccine producer in the world. Without such partnerships, which are utilized in most industries, governments could not handle the diversification, speed and scale required by global crises

Finally, the most significant long-term strategy to address supply-chain shortages in semiconductors and other industries is to invest in workforce development. Skills shortages are critical and resilience will be gained from government policies to train people to avoid skills shortages (e.g., cyber-security). For example, this is a critical factor behind Intel´s two new semiconductor factories in Ohio which in a short period of time are expected to employ about 3,000 workers.

Environment, Social and Governance (ESG)

The present need for a re-organization of the global logistic chain coincide with the call for stronger environmental, social and governance concerns. Since the Thatcher and Reagan era – there has been a noticeable shift away from economic liberalization to a more general dissatisfaction with globalization (Cuervo-Cazurra et al, 2020). This has also led civil society organizations to highlight a tension between MNEs and governments (Lall and Teubal 1998; Buckley and Ghauri 1999). In the early 2000s a shift away from the shareholder value maximization model (Friedman 1970, 2007) to the stakeholder maximization model (Freeman, 1984) was visible. This shift means that the value creation - in addition to the shareholders - also should benefit customers, suppliers, employees, investors and all others who have a stake in the firm.

To address the above-mentioned concern financial institutions and the UN launched ad a joint initiative as the Environment, Social and Governance (ESG) policy in the 2014 report "Who Cares Wins". The new policy means an extension of the Corporate Social Responsible (CSR) business model by also integrating the governance aspects. The ESG-issues differ across firms

and sectors within a firm and the weights of the issues exhibits intertemporal variation. However, some issues – like carbon emissions, business ethics, occupational health and safety, community relations and resource use – seem to be consistently addressed.

At the beginning of the 2020s most MNEs claim to be following the ESG directives (proxied by the fact that 96% of the Fortune 500 companies claim to adhere to ESG) and produce an annual ESG report along with their annual accounts (Elg & Ghauri, 2021). ESG compliance has *de facto* become a requirement for publicly traded firms. In terms of the operational implementation and presentation of the ESG factors, there is still substantial firm-specific variation. The implementation issue is also substantial, as the three groups of factors are inter-twined and overlap with each other. It is widely considered that getting the ESG wrong can lead to firm value destruction and loss of customer confidence (Henisz & McGlinch, 2019).

From a business policy perspective it is worthy of mentioning in the context of reorganization of the global logistic chain that CSR practices are found to be fundamentally related to the legal origin of a country. As a general pattern, firms from civil law countries are found to have higher CSR ratings than firms from common law countries (Liang and Renneboog, 2017).

Factors influencing the MNE and government relationship

Political stability and economic liberalization have provided the macro foundation for the increase in MNE investments in developing countries over the last decades. This has supported China in becoming an integrated part of the global production value chain of many MNEs. The double-digit growth of FDI worldwide (UNTAD, 2020) has brought MNEs centre-stage in the international political economy, whereby the size and significance of many MNE has been on par with nations. This development challenges traditional economic theory of comparative advantage and directs attention towards MNEs ability to create firm-specific assets instead of just utilizing natural national factor endowments. The MNEs key role in wealth creation calls for a greater degree of partnership between MNEs and governments. In this respect, both parties needed to understand each other's objectives and consider policy co-ordination as a positive-sum game and not as a zero-sum game. The collaborations have changed the structure of competition and challenge the power of governments. There is a triangular diplomacy model: government-government, company-company and government-company to illustrate competing national and international resources. More recently however, non-governmental organisations (NGOs) have been playing a major role in reshaping the global political-economic landscape. A number of studies are thus challenging the two-sector bargaining model (e.g., Teegen et.al. 2004). These studies claim that NGOs' many and varied interactions with MNEs and governments represent new challenges to both parties (Hadjikhani, Elg & Ghauri, 2012).

Understanding of global interdependencies is crucial to an understanding of the new geopolitical situation. Geopolitics is entailing varied phenomena, which suggests a need for a multiple level of analysis in terms of economics, politics, culture and ideology. However, these interdependency is driven mostly by economic forces such as; reorganisation of production, international trade and the integration of financial markets (Buckley and Ghauri 2004). The interdependence of US and China is a good illustration – where ideological and political forces were behind a decoupling of FDI that started off as early as around 2006 (Witt et.al., 2023). While discussing production, the state and new social movements, we detect a series of relationships among: a) economic of MNEs and the state; b) pressures on the state from below by sub-nationalism and from above by MNEs; c) geopolitics and democratisation and, finally, d) resistance to globalisation to prevent the eruption of social tension. Globalisation thus encompasses contradictory trends. On the one hand, there are the unaccountable forces of globalisation, which are largely beyond the control of effective states. On the other hand, the state pulls in the opposite direction by using a variety of government intervention measures to create a competitive edge. Power is dispersed among more actors and interregional competition is heightened between the 'triads' of Europe, North America and Asia.

United Nations' SDGs and ESG; Implications for Sustainable Finance

Sustainable development has become a critical issue that is confronting many societies, regions and communities. In 2015, the UN launched 17 Sustainable Development Goals to be achieved by 2030. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice. Collaborative efforts of governments, society and MNEs are required to achieve the seventeen SDGs (Ghauri, Fu, & Vaatanen, 2018). The SDG can be seen as a blueprint of sustainable business practices, and we take this one step further by showing how this can be applied to issues of sustainable finance for MNEs.

It has historically been strong opposing views on the impact of MNEs; from the cause of environmental degradation, corruption, and exploitation – to the opposite view of MNEs as a force for betterment of the environment (Dunning, 2005). However, research interest in sustainable development in IB) has been limited until the early 2010s (Kolk, 2016). Similarly, industries that have the most direct and significant impact on sustainable development, such as the natural resources industry and the energy industry, have not featured prominently in IB research (Ghauri et al, 2021). We argue that MNEs can play a significant and positive role in the sustainable development agenda, which goes well beyond the CSR discourse, and these developments (phenomena) need to be captured by IB research with nuances. The re-organization of the global value chain will indeed provide a golden opportunity.[4] Appendix 1 provides examples of implications of SDGs for IB practice and research as well as implications for sustainable finance of an MNE.

Even in absolute terms, the number of people living in extreme poverty is lower today than in any time since year 1800 (Rosling et al, 2018). Furthermore, due to the strong growth in developing and middle-income countries, the inequality between rich and the poor countries has been reduced over the last 25 years[5]. However, the income gap *within* countries has widening, due to strong growth in the middle class in emerging and developing countries, and among the upper-income people in developed countries[6]. Yet in absolute terms there has been growth in most countries, and MNEs have placed a positive role in supporting host country economic growth. The positive impact of MNEs in host countries has primarily come via enhanced job opportunities. Specifically, MNE based jobs have provided higher pay and more employee training than domestic jobs (Javorcik, 2015). However, these positive externalities should be compared with the potential negative impact of increasing inequality and potential weaking of indigenous culture (e.g., Harris, 2008). Specifically, domestic income inequality within countries have been shown to enhance the risk exposure of MNE (Krammer et al, 2023). The SDG goals is an explicit attempt to make the MNE move from merely focus on short-term profit maximisation, and incorporate potential adverse effect on the distribution of income and employment levels. While examining the positive and negative role of MNEs in achievement of SDGs, we need to consider how policy changes may impact MNEs and the industries they are associated with (Ghauri, 2022).

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[4] IB research on sustainability issues is beginning to gather momentum, as evidenced in the establishment of the Sustainability Special Interest Group of Academy of International Business and special issues in IB journals.

[5] https://www.un.org/en/un75/inequality-bridging-divide

[6] https://www.pewresearch.org/social-trends/2020/01/09/trends-in-income-and-wealth-inequality/

The changing nature of the relationship

The emergence of China as a major player in the world has led to difficulties in the implementation and transparency of business law, regional differences and uncertainties about the direction of future economic policies. These challenges need to be addressed by careful adaptation of company strategies as well as government policies.

There are also grounds for believing that bargaining power will continue to move in the direction of MNEs, at the expense of governments. The MNE has a wider choice of investment locations as "emerging countries" put themselves forward as export platforms - usually on a tax-free basis. Their proprietary technology is widely sought after by host countries and their branded products sell at a premium to upscale consumers globally. Flexible manufacturing and production controlled by IT systems mean that more and more of the activities of MNEs are footloose. As suggested by Buckley and Ghauri (2004), the manufacturing system of future will use distributed manufacturing, where products are more and more responsible to customer needs through flexible factories (the global factory, see figure 1). In flexible factories, all plants can make all firms' products and brands and can switch between different firms' products very quickly using new technologies and robots. All this has to be considered in connection to the choice of one of our five strategies for a re-organization of the global logistic chain in a ESG compatible way.

Conclusion

The force of globalisation is beyond the control of any single nation state. But regional co-operation allows state policies to be coordinated to prevent wasteful competition or even combined to produce regional trading and investment blocs. International developments stressed by SDGs (Appendix 1), such as reducing inequalities, favour flexible strategies. However, recent attempts to regulate trade (by the WTO) and to bring investment and services within the audit of international regulation have so far proved largely ineffectual.

The global competition for jobs and the new mercantilist development in the political economy indicate that the successful old business model of the global value chain is under siege. With the globalization of markets under pressure, this implies that businesses will encounter larger costs, for example in terms of time losses in border crossings. Brexit provides a first indication of such struggles. This calls for a reorganization of the business configuration of the internationally oriented firm. Which model will then apply? Can we see a concentration of production in regions? For example, will the European market be served with goods made in Europe and with inputs entirely from Europe? Will the Chinese market be dominated with goods made in China with inputs from China? Hence, will production roll back so far that the market in each individual country is served by domestic production using domestic inputs only?

The need for new business models is accelerated by a climate policy that may require each company to bear the costs of its own negative climate impact in the form of, for example, carbon dioxide emissions related to transport. Investing sustainably will be a requirement in the future where a non-compliance to what is expected from the climate activists will turn very costly in many ways. With such a policy, it will no longer be profitable to outsource production to a distant country for a tiny value-added gain, such as a Norwegian company sending shrimps to be peeled in China and then transporting the peeled shrimps back to be sold to Norwegian customers. The climate issue may also contribute to closed borders to the extent that the gloomy scenario of 500 million refugees on the move from their home countries for climate reasons, in a not-too-distant future, turns into reality.

Different industries may require different business models in line with the five active strategies outlined above, when forced to abandon the old global logistics chain that was based on a more or less friction-free passage across borders. The geopolitical situation will determine the choice of business model for the individual firm, and the degree to which it must reorganize its production. However, the re-emergence of mercantilism will be accompanied by new or reinforced idiosyncratic risks that, for citizens in most countries, will mean a great leap backwards in terms of prosperity, and for firms headquartered in these countries higher risk management costs (Oxelheim & Wihlborg, 2008).

The development in the political economy after the financial crisis of 2008 has created an atmosphere of mistrust between governments and MNEs. The shareholder return – driven environment which prevailed in previous decades and the perceived difficulties of global governance in MNEs have fuelled the current crisis in governance of firms. This has led to opinions that MNEs are safely looking for control and benefit only for owners and executives rather than for other stakeholders such as society (Buckley and Ghauri 2004). It is therefore important to be aware of the dangers imposed by capitalism and risks of mismanaged liberalisation. We need to re-divert our attention to ensuring effective responses to global environmental changes instead of forcing less developed countries to do what they would not prefer to do. Globalization and global economic integration does not render states helpless or enhance poverty and inequality (Wolf 2004). It is the mismanagement of this process that is creating mistrust.

To sum up, we have here pinpointed a number of challenges faced by business leaders as a consequence of the re-emergence of mercantilism in the global economy of the 2020s and the adherence to the UN launched ESG policy. We have specifically highlighted how the combined effect of the financial crisis, the technology shift, and the climate issues - packaged into a sustainable finance context - has led politicians to turn to the use of state aid in their fight for new jobs. Countervailing forces to the resulting rollback of the global logistic chain are represented by technology, education and innovation. MNEs' have to learn how to manage new dimensions of political exposure. The successful MNE will need to embrace all these challenges by reorganizing itself using a flexible global value chain, and to act as a good local citizen by supporting the employment, climate and economic development concerns of the host country.

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Appendix 1. Sustainable Development Goals and implications for MNEs, Governments and Sustainable Finance.

Sustainable Development Goals	Implications for MNEs and Governments	Implications for Sustainable Finance of an MNE
Goal 1: No poverty—End poverty in all its forms everywhere.	• How can MNEs generate quality employment and contribute to human capital development to eradicating poverty? How can governments facilitate this through their policies.	• Make sure the MNE's activities create value for all stakeholders at all parts of the value chain (including subcontractors and suppliers).
Goal 2: Zero hunger—End hunger, achieve food security and improved nutrition and promote sustainable agriculture.	• How can AI be deployed to develop smart agriculture in poor regions through collaborations to facilitate sustainable agriculture?	• Make sure the MNE's activities support sustainable food industry and local traditions and incorporate this in budgets and financial planning.
Goal 3: Good health and wellbeing—Ensure healthy lives and promote well-being for all at all ages.	• How can MNEs promote health and safety, and well-being at workplaces across their subsidiaries. How can governments facilitate through regulations?	• Make sure the MNE promotes the health of employees, customers and other key stakeholders and include this in financial decision making.
Goal 4: Quality education—Ensure inclusive and equitable education and promote lifelong learning opportunities for all.	• In what ways can MNEs be incentivized to participate in the vocational education and training in poor countries that will promote skill development and lifelong learning?	• Make sure the MNE supports life-long learning and skill development and incorporate this in budgets and investment decisions.
Goal 5: Gender equality—Achieve gender equality and empower all women and girls.	• What are the driving forces and barriers to, MNEs' adoption of gender equality policy in their global human resource management? And how can these be enforced by different governments?	• Make sure the MNE supports gender equality, including gender representation in leadership and boards

l 6: Clean water and sanitation—Ensure available and sustainable water resources and sanitation for all.	• How can MNEs and governments monitor and improve their environmental performance by reducing water pollution?	• Make sure the MNE supports clean water and incorporate this in budgets and investment decisions.
Goal 7: Affordable and clean energy—Ensure access to affordable, reliable, sustainable and energy for all.	• What role do energy MNEs play in this transition? What institutional conditions are required for MNEs to play a positive role?	• Make sure the MNE supports sustainable energy solutions and incorporate this in budgets and investment decisions.
Goal 8: Decent work and economic growth—Promote sustained, inclusive and sustainable economic growth, full employment and decent work for all.	• What are the drivers for MNEs to adopt inclusive business models? How can supermarkets source from small farms in the developing world to create decent work and economic growth?	• Make sure the MNE make net present value enhancing investment decisions that promotes long-term growth and support local employment.
Goal 9: Industry, innovation and infrastructure—Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.	• How can MNEs adapt their innovation strategy (e.g., decentralized R&D and scalable design) to foster innovation capacity in developing countries? How can governments incentivise this?	• Make sure the MNE supports build-up of innovation capacity in local industrial networks and shared infrastructure – by the means of budgets and investment decisions.
Goal 10: Reduce inequality—Reduce inequality within and among countries.	• To what extent does global talent mobility (e.g., brain drain) exacerbate as well as reduce inter- and intra- regional inequality. And what role do MNEs and governments play?	• Make sure the MNE supports reduced inequality by means of proactive HR plans incorporate in budgets and investment decisions.
Goal 11: Sustainable cities and communities—Make cities and human settlements inclusive, safe, resilient, and sustainable.	• To what extent, are cities attractive for undocumented labour with exploitative employment terms and conditions, particularly in migrant communities?	• Make sure the MNE supports the development of cities and communities by making sustainable location choices reflected in budgets and investment decisions.

	• How do different social groups compete for jobs, create disincentives and pressure for institutional regulation? What the tension among sustainability, affordability and inclusiveness and how can MNEs navigate through these demands?	
Goal 12: Responsible consumption and production—Ensure sustainable consumption and production patterns.	• How can MNEs contribute to developing the circular economy through R&D capability, influence in the GVC and marketing campaign?	• Make sure the MNE's activities reflect sustainable production and consumption as reflected in budgets and investment decisions.
Goal 13: Climate action—Take urgent action to combat climate change and its impacts.	• How is the climate policy of nation states influenced by their institutional systems? • In what ways do cultural factors in different countries affect the level of acceptance of climate initiatives promoted by international organizations and MNEs?	• Make sure the MNE's activities specifically minimize climate-related footprint, and provide budgets and investment decisions to further reduce such negative externalities.
Goal 14: Life below water—Conserve and sustainably use the oceans, seas and marine resources for sustainable development.	• How can MNEs' R&D and innovation technology can be incentivised to achieve pollution goals in oceans and a on land?	• Make sure the MNE activities minimize the harm to water resources, and make budgets and investment decisions to further reduce such negative externalities.
Goal 15: Life on land—Protect, restore and promote sustainable use of terrestrial ecosystems.	• What is the role of MNEs in developing and deploying digital technology (e.g., the use of drones and big data analytics) to improve the terrestrial ecosystems on a global scale? How can this be incentivised by governments?	• Make sure the MNE activities minimize the harm to life and ecosystems, and make budgets and investment decisions to further reduce such negative externalities.

Goal 16: Peace and justice strong institutions—Promote peaceful and inclusive societies for sustainable development.	• How can MNEs collaborate with governments to facilitate institutional development and promote equality and justice through its diversity and inclusion policy and practice in host countries?	• Make sure the MNE activities and investment decisions supports peaceful outcomes – enhancing just and transparent governance policies.
Goal 17: Partnerships for these Goals—Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development.	• How can MNEs take initiative to work with governments and other social institutions/actors to advance the field of research on sustainable development?	• Make sure the MNE activities and investment decisions supports cooperation with governments and the third sector in order to enhance the SDG goals.

Source: Compiled by the authors based on the United Nations' (2015) SDGs and Ghauri & Cooke, 2022). Column three is unique to this publication.